

SENATE BILL REPORT

SB 5960

As of February 28, 2009

Title: An act relating to authorizing cities and counties to levy and collect certain additional taxes.

Brief Description: Authorizing cities and counties to levy and collect certain additional taxes.

Sponsors: Senators Regala, Fraser and Kline.

Brief History:

Committee Activity: Ways & Means: 2/26/09.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: The Sales & Use Taxes. The sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. The buyer pays the sales tax and the retailer collects the tax and remits it to the state. The use tax is imposed on items used in the state that were not subject to the retail sales tax. This includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The tax rate is the same as that imposed under the retail sales tax. The person using the item pays the use tax directly to the state. Sales and use taxes are imposed by the state, counties, and cities. The state sales and use tax rate is 6.5 percent and the local rate varies. The combined state and local rates are between 7 and 8.9 percent, depending on location.

Local Utility Taxes. Cities may impose a local city utility tax on the gross income of electrical, natural gas, steam energy, and telephone businesses at a maximum of 6 percent, unless a higher rate is approved by the voters.

County Public Safety Sales & Use Tax. In 2003 the Legislature authorized counties to impose upon voter approval a sales and use tax up to 0.3 percent. At least one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities. The revenues must be shared between the county imposing the voter-approved tax and the cities: the county retains 60 percent of the receipts and the remaining 40 percent is distributed to cities within the county on a per capita basis. Tax receipts may not be used to

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replace existing funds for such programs. Sales of motor vehicles are not subject to this local tax. The tax has been implemented in five counties: Kittitas, Walla Walla, Spokane, Whatcom, and Yakima.

Summary of Bill: The legislative authorities of the counties are allowed to impose a public utility tax in unincorporated areas of a county. The maximum rate of the tax would be 6 percent. If a city and a county imposed a public utility tax on the same unit of value, the city tax would be credited off of the county tax such that the total rate would equal no more than 6 percent. Thirty percent of revenues derived from this tax are to be used for criminal justice purposes.

The change to the public safety tax would allow a county, as of July 1, 2009, to impose the public safety tax without voter approval. If the tax was imposed in this way, it could be repealed by referendum. On July 1, 2009, counties would no longer be authorized to propose the public safety tax to the voters.

The bill would also change the way one-third of public safety tax revenues can be used. Under current law, one-third of this revenue must be used for criminal justice purposes. The bill would allow this portion of the revenue to be used for fire protection as well.

The bill would allow a county that imposed the public safety tax at less than 0.3 percent prior to July 1, 2009, to impose an additional public safety component after July 1, 2009, which would raise the total public safety rate to as high as 0.3 percent.

Appropriation: None.

Fiscal Note: Requested on February 12, 2009.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2009.

Staff Summary of Public Testimony: PRO: The counties, including King County, are facing budget challenges during the economic downturn. At the same time, the counties have increasing demands for public safety and health. This bill helps the counties in several ways. The easing of the non-supplant for the public safety tax will help us retain existing programs. Otherwise, we would only be able to use these funds for new and expanded programs at the same time that we were decreasing basic services. The utility tax in the unincorporated areas will greatly help with the provision of public safety and other services. It might make sense to amend the bill to include exemptions for large commercial energy consumers from the unincorporated county utility tax.

OTHER: The Association of Washington Cities (AWC) and the Washington State Association of Counties are working on resolving outstanding issues with the councilmatic imposition of the public safety sales and use tax.

CON: The utility tax in unincorporated areas will greatly burden large commercial energy consumers. The downward trend in the market value of residential property is already

shifting the burden of the property tax onto commercial property owners. A large commercial energy consumer utility tax exemption could harm residential customers' rates.

Persons Testifying: PRO: Larry Gossett, member, King County Council; George Raiter, Cowlitz County Commissioner; Scott Merriman, Association of Washington Counties.

OTHER: Jim Justin, AWC.

CON: Greg Hanon, Western States Petroleum; Joe Daniels, Washington State Association of Sewer and Water Districts; Steve Gano, Goodrich Aviation, Aviation and Tech Services, AT&T.